

**DENTON COUNTY FRESH WATER SUPPLY  
DISTRICT NO. 1-G**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2012**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Denton County Fresh Water Supply  
District No. 1-G  
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-G (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated October 16, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis (on pages 3 through 8) and the General Fund budgetary comparison information (on page 32) are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denton County Fresh Water Supply  
District No. 1-G

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents on page 31 and the supplementary information listed in the table of contents on pages 33 through 42 (required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*) is not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information marked "Unaudited," has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Weaver and Tidwell, L.L.P." with a stylized flourish at the end.

WEAVER AND TIDWELL L.L.P.

Dallas, Texas  
October 16, 2013

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-G's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's financial statements, which begin on page 9.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at September 30, 2012 by \$889,137. Of this amount, \$1,040,761 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for a specific purpose total \$60. The remaining net assets balance of \$151,684 is classified as unrestricted and is currently in a deficit position.
- The District's net assets increased by \$509,943. The deficit in unrestricted net assets, which would be used to meet the District's ongoing obligations to residents and creditors, decreased by \$232,121.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$205,414, a net increase of \$195,097 in comparison to the prior year.
- The District's long-term liabilities at year end were \$357,394, a decrease of \$36,668 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

The District's annual report includes two financial statements composing the government-wide financial statements. The government-wide statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the statement of net assets on page 9. The statement of net assets includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**Government-wide financial statements (continued)**

The statement of activities on page 10 reports how the District's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Both the statement of net assets and statement of activities are prepared utilizing the accrual basis of accounting.

**Fund financial statements**

The statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, and include customer service revenues, costs and general expenditures. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The reconciliation of the governmental funds balance sheet to the statement of net assets on page 12 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities on page 14 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**Notes to the basic financial statements**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 30 in this report.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The District prepares a schedule of reimbursed costs to other governmental units on page 31 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 32 through 42.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$889,137 as of September 30, 2012.

The following is a comparative analysis of the government-wide statements of net assets:

	<b>Summary of Changes in the Statement of Net Assets</b>		
	<b>2012</b>	<b>2011</b>	<b>Change</b>
Current and other assets	\$ 233,691	\$ 23,546	\$ 210,145
Capital assets (Net of accumulated depreciation)	1,040,761	762,939	277,822
<b>Total assets</b>	<b>1,274,452</b>	<b>786,485</b>	<b>487,967</b>
Noncurrent liabilities	357,394	394,062	(36,668)
Other liabilities	27,921	13,229	14,692
<b>Total liabilities</b>	<b>385,315</b>	<b>407,291</b>	<b>(21,976)</b>
<b>Net assets</b>			
Invested in capital assets	1,040,761	762,939	277,822
Restricted	60	60	-
Unrestricted	(151,684)	(383,805)	232,121
<b>Total net assets</b>	<b>\$ 889,137</b>	<b>\$ 379,194</b>	<b>\$ 509,943</b>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following table provides a summary of the District's operations for the years ended September 30, 2012 and 2011. The District's net assets increased by \$509,943 or 134.5%. The increase in net assets was due to commercial permit revenues and property taxes on a multifamily project.

	<b>Summary of Changes in the Statement of Activities</b>		
	<b>2012</b>	<b>2011</b>	<b>Change</b>
<b>Revenues:</b>			
Property taxes	\$ 640,782	\$ 640,050	\$ 732
Charges for services	313,720	1,950	311,770
Investment revenues	-	-	-
Other revenues	7,671	809	6,862
Contributions from other governments	279,764	-	-
<b>Total revenues</b>	<b>1,241,937</b>	<b>642,809</b>	<b>599,128</b>
<b>Expenses:</b>			
Expenses for services	445,049	318,680	126,369
Depreciation	18,226	6,488	11,738
Payments to other governmental units	252,435	180,000	72,435
<b>Total expenses</b>	<b>715,710</b>	<b>505,168</b>	<b>210,542</b>
<b>Change in net assets</b>	<b>526,227</b>	<b>137,641</b>	<b>388,586</b>
<b>Net assets, beginning of year</b>	<b>379,194</b>	<b>241,553</b>	<b>137,641</b>
<b>Net assets, end of year</b>	<b>\$ 905,421</b>	<b>\$ 379,194</b>	<b>\$ 526,227</b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2012, was \$205,414, an increase of \$195,097 from the prior year.

The General Fund balance increased by \$195,097, primarily due to commercial permit revenues and property taxes on a multifamily project.

The Capital Projects Fund balance experienced no change due to no activity in the current year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual expenditures on a budgetary basis were \$477,617 compared to the amended budget of \$638,476. The District had a positive expense variance of \$160,859. Actual revenue on a budgetary basis was \$961,817 compared to the amended budget of \$849,787. The District incurred a minor positive revenue variance of \$112,030 as a result higher permit revenues. See the budget to actual comparison on page 32 for additional information.

**CAPITAL ASSETS**

A portion of the District's assets were funded by Denton County per an agreement with Denton County Fresh Water Supply District No. 1-A (District 1-A). Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District 1-A purchases and records in its records.

The District's investment in capital assets as of September 30, 2012 amounts to \$1,040,761 (net of accumulated depreciation).

**Capital Assets at Year-End, Net of Accumulated Depreciation**

	2012	2011	Increase (Decrease)
Capital assets not being depreciated			
Construction in progress	\$ 16,284	\$ 167,325	\$ (151,041)
Capital assets, net of accumulated depreciation:			
Water system	580,213	140,064	440,149
Wastewater system	151,425	155,115	(3,690)
Drainage system	69,821	71,465	(1,644)
Roads	223,018	228,970	(5,952)
Total net capital assets	\$ 1,040,761	\$ 762,939	\$ 277,822

Additional information on the District's capital assets can be found in Note 4 on pages 22 and 23 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

For the year ended September 30, 2013 budgeted revenues are anticipated to increase by approximately \$449,341 while expenses are anticipated to increase by approximately \$135,826. The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

The District maintained property tax rates at \$1.0000 per \$100 assessed value.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-G, c/o Kelly Hart & Hallman LLP, 201 Main Street, Suite 2500, Fort Worth, TX 76102.

## **BASIC FINANCIAL STATEMENTS**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

	<b>2012 Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 232,692
Receivables:	
Service Accounts (net of allowance for doubtful accounts of \$0)	619
Franchise fees	356
Other receivables	24
Construction in progress	16,284
Capital assets (net of accumulated depreciation)	<u>1,024,477</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,274,452</u></b>
<b>LIABILITIES</b>	
Accounts payable	\$ 23,070
Payroll withholdings	157
Accrued wages	461
Due to other governmental units	2,633
Noncurrent liabilities	
Due to other governmental units	357,394
Security deposits	<u>1,600</u>
<b>TOTAL LIABILITIES</b>	<b><u>385,315</u></b>
<b>NET ASSETS</b>	
Invested in capital assets	1,040,761
Restricted for:	
Capital projects	60
Unrestricted	<u>(151,684)</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 889,137</u></b>

The Notes to Financial Statements are  
an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u><b>Governmental Activities</b></u>
<b>EXPENSES:</b>	
Service operations:	
Administrative expenditures	\$ 81,621
Director expenditures	3,825
Reimbursements to other governmental units	329,383
Contracted services	29,514
Purchased water service	96
Purchased wastewater service	610
Depreciation	18,226
Contributions to other governmental units	<u>252,435</u>
Total expenses	<u>731,994</u>
<b>REVENUES:</b>	
Program revenues:	
Water service	615
Permits and inspections	312,574
Contributions from other governmental units	<u>279,764</u>
Total program revenues	<u>592,953</u>
Net (expense)	<u>(139,041)</u>
General revenues	
Property taxes	640,782
Penalty and interest	175
Franchise fees	356
Miscellaneous revenues	<u>7,671</u>
Total general revenues and transfers	<u>648,984</u>
<b>CHANGE IN NET ASSETS</b>	<u>509,943</u>
<b>NET ASSETS, AT OCTOBER 1, 2011</b>	<u>379,194</u>
<b>NET ASSETS, AT SEPTEMBER 30, 2012</b>	<u><u>\$ 889,137</u></u>

The Notes to Financial Statements are an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash	\$ 232,632	\$ 60	\$ 232,692
Receivables:			
Service Accounts (net of allowance for doubtful accounts of \$0)	619	-	619
Franchise fees	356	-	356
Other	24	-	24
<b>TOTAL ASSETS</b>	<b>\$ 233,631</b>	<b>\$ 60</b>	<b>\$ 233,691</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 23,070	\$ -	\$ 23,070
Payroll deductions	157	-	157
Accrued wages	461	-	461
Due to other governmental units	2,633	-	2,633
Security deposits	1,600	-	1,600
Deferred franchise tax revenue	356	-	356
<b>TOTAL LIABILITIES</b>	<b>28,277</b>	<b>-</b>	<b>28,277</b>
<b>FUND BALANCES</b>			
Restricted			
Net investment revenues authorized for construction	-	60	60
Unassigned	205,354	-	205,354
<b>TOTAL FUND BALANCES</b>	<b>205,354</b>	<b>60</b>	<b>205,414</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 233,631</b>	<b>\$ 60</b>	<b>\$ 233,691</b>

The Notes to Financial Statements are an integral part of this statement.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<b>Total Fund Balances - Governmental Funds</b>	\$	205,414
Amounts reported for governmental activities in the statement of net assets are different because:		
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.		16,284
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		1,024,477
Governmental funds do not record a long term liability to other governmental units for the advances made on behalf of the District for operations and project costs. However, in the statement of net assets, the liability for these advances is recorded.		(357,394)
Deferred tax revenues for the 2009 and prior tax levies became part of recognized revenue in the governmental activities of the District.	\$	<u>356</u>
<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u>889,137</u></b>

The Notes to Financial Statements are an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
Property taxes	\$ 640,782	\$ -	\$ 640,782
Water service	615	-	615
Penalty and interest	175	-	175
Permits and inspections	312,574	-	312,574
Miscellaneous revenues	7,671	-	7,671
<b>TOTAL REVENUES</b>	<u>961,817</u>	<u>-</u>	<u>961,817</u>
<b>EXPENDITURES</b>			
Service operations:			
Director expenditures	3,825	-	3,825
Administrative expenditures	97,905	-	97,905
Allocated costs to District 1-A	329,383	-	329,383
Contracted services	29,514	-	29,514
Purchased water service	96	-	96
Purchased wastewater service	610	-	610
Capital outlay	16,284	-	16,284
<b>TOTAL EXPENDITURES</b>	<u>477,617</u>	<u>-</u>	<u>477,617</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>484,200</u>	<u>-</u>	<u>484,200</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Contributions to other governmental units	(252,435)	-	(252,435)
Payment to developer	(36,668)	-	(36,668)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(289,103)</u>	<u>-</u>	<u>(289,103)</u>
<b>NET CHANGE IN FUND BALANCES</b>	195,097	-	195,097
<b>FUND BALANCES - OCTOBER 1, 2011</b>	<u>10,257</u>	<u>60</u>	<u>10,317</u>
<b>FUND BALANCES - SEPTEMBER 30, 2012</b>	<u>\$ 205,354</u>	<u>\$ 60</u>	<u>\$ 205,414</u>

The Notes to Financial Statements are an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<b>Net Change in Fund Balances - Governmental Funds</b>	\$	195,097
Governmental funds defer revenue unless they are susceptible to accrual. However in the Statement of Net Assets, revenue is recognized when earned.		356
Governmental funds report repayments of amounts owed to developers as other financing uses. However, in the statement of net assets, repayments on long-term liabilities are recorded as a reduction of the liability.		36,668
Governmental funds record capital expenditures. However such expenditures are reclassified to capital assets on the government wide financial statements.		16,284
Governmental funds do not account for depreciation. However, in the statement of net assets, capital assets are depreciated over the estimated useful life of the asset and depreciation expense is recorded in the statement of activities.		(18,226)
The District received a contribution of fixed assets from another entity. Such contributions are recorded on the statement of activities but are not recorded on the governmental fund statement of revenues, expenditures, and changes in fund balance.		279,764
<b>Change in Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u>509,943</u></b>

The Notes to Financial Statements are an integral part of this statement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. CREATION OF DISTRICT**

By the terms of an election held on January 17, 1983, voters approved the creation of the Denton County Fresh Water Supply District No. 1, now known as Denton County Fresh Water Supply District No. 1-A (District No. 1-A). As a result of another election held on August 8, 1987, the voters approved District No. 1-A's assumption of certain rights, authority, privileges and functions of a road district and approved for District No. 1-A to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of District No. 1-A approved the conversion of District No. 1-A to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of District No. 1-A on May 3, 2003 voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-G (the District) was one. The District held its first meeting on June 3, 2003. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District and its operations are part of the eight Districts which make up the community referred to as Castle Hills. The District has contracted with District No. 1-A to operate the utility system within the District.

The District receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined in pronouncements by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. The District implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, and it was determined that the District has no component units and the pronouncement has no effect on the financial statements.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). In addition, the accounting records of the District are maintained in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Financial Statement Presentation**

These financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*.

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- *Invested in Capital Assets, Net of Related Debt* — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- *Restricted Assets* — This component of net assets consists of external constraints placed on the use of net assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* — This component of net assets consists of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt."

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

**Measurement Focus**

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide statement of net assets and statement of activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with these activities are reported. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the statement of net assets. The statement of activities is reported by adjusting the governmental fund types to the accrual basis of accounting. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense on the government-wide statement of activities.

**Fund Financial Statements**

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities.

The District considers revenue reported in governmental funds to be available if collectible within sixty (60) days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the governmental funds balance sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

The fund statements include a balance sheet and statement of revenues, expenditures and changes in fund balances. The District has two major governmental funds:

General Fund – To account for resources not required to be accounted for in another fund, and include customer service revenues, costs and general expenditures.

Capital Projects Fund – To account for financial resources segregated for acquisition or construction of facilities and related costs.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Budgeting**

Pursuant to the Operating Agreement (Note 9), District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget. During fiscal year 2010 the District's Board acknowledged the receipt of the annual budget provided by District No. 1-A.

**Cash and Cash Equivalents**

The District cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide statement of activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Water system	10 - 45
Wastewater system	10 - 45
Drainage system	10 - 45
Road system	10 - 50
All other equipment	3-20

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Pensions**

The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established. The District has funded payroll costs to District No. 1-A. District No. 1-A operates the District’s utility system on behalf of the District and handles pension provisions for its employees.

**Net Assets / Fund Balances**

The District has implemented GASB No. 54, *Fund Balance, Reporting and Governmental Fund Type Definitions*, for its governmental funds. Under GASB No. 54, fund balances are required to be reported according to the following classifications:

Nonspendable Fund Balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. The District has no nonspendable fund balance as of September 30, 2012.

Restricted Fund Balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) or by law (through constitutional provisions or enabling legislation). The District has no committed fund balance at September 30, 2012.

Assigned Fund Balance – Amounts that are constrained by the Districts intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The District has no assigned fund balance at September 30, 2012.

Unassigned Fund Balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

**Allocated costs**

Pursuant to the Operating Agreement (Note 9), District No. 1-A pays all expenses required to maintain, operate and manage the facilities of the District and all expenses related to management of the District. On a monthly basis, District No. 1-A allocates to the District its allocable share of expenses which is reflected as allocated cost on the statement of activities and governmental fund revenues, expenditures, and changes in fund balances.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. As of September 30, 2012, the District's deposits that were in excess of FDIC limits were fully covered by collateral.

The District is a participant of a pooled cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development. At September 30, 2012, total pooled cash consisted of \$2,202,540 in cash and cash equivalents and \$461,863 in certificates of deposit. The book balance of the total pooled cash account was \$1,580,525. The book balance of the District's share of pooled cash was \$232,632.

The District also had deposits in non-pooled cash accounts. As of September 30, 2012, the bank balance of these deposits was \$60 and the book balance was \$60.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Investments**

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of September 30, 2012, the District does not own any investments.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS**

A portion of the District's assets were funded by Denton County per an agreement with District No. 1-A. Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District 1-A purchases and records in its records.

Capital asset activity for the year ended September 30, 2012:

	October 1, 2010	Additions	Transfers	September 30, 2011
Capital assets not being depreciated				
Construction in progress	\$ 167,325	\$ 16,284	\$ (167,325)	\$ 16,284
Capital assets at historical cost subject to depreciation				
Water system	144,999	279,764	167,325	592,088
Wastewater system	166,030	-	-	166,030
Drainage system	73,983	-	-	73,983
Road system	238,086	-	-	238,086
Total capital assets at historical cost subject to depreciation	<u>623,098</u>	<u>279,764</u>	<u>167,325</u>	<u>1,070,187</u>
Less accumulated depreciation				
Water system	4,935	6,940	-	11,875
Wastewater system	10,915	3,690	-	14,605
Drainage system	2,518	1,644	-	4,162
Road system	9,116	5,952	-	15,068
Total less accumulated depreciation	<u>27,484</u>	<u>18,226</u>	<u>-</u>	<u>45,710</u>
Total depreciable capital assets				
Net of accumulated depreciation	<u>595,614</u>	<u>261,538</u>	<u>167,325</u>	<u>1,024,477</u>
Total capital assets, net of accumulated depreciation	<u>\$ 762,939</u>	<u>\$ 277,822</u>	<u>\$ -</u>	<u>\$ 1,040,761</u>

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D and 1-E. The agreement provided for a cost sharing of the cost of construction of certain Lift Station Facilities. District No. 1-A will own the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-H. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS – CONTINUED**

The capacity allocated to each participant was based upon the estimated total sewer connection as of September 30, 2012. Capacity in the facilities is allocated as follows:

District No. 1-B	36.69 %
District No. 1-C	0.22
District No. 1-D	42.97
District No. 1-E	20.12
Total	<u>100.00 %</u>

District Nos. 1-B, 1-C, 1-D and 1-E are defined in the ECPA as “Selling Districts”. It is the intent of the Selling Districts to sell excess capacity to District Nos. 1-F, 1-G and 1-H based on the actual capacity needed as development occurs within their respective district. The cost of capacity to District Nos. 1-F, 1-G and 1-H will be calculated based upon the provisions outlined in the ECPA.

As of September 30, 2012, the District does not own capacity in the lift station facilities.

**NOTE 5. NONCURRENT LIABILITIES**

**Developer Liability**

On May 20, 2009, the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Property Company (the Developer) to provide the advancement of monies to facilitate the operations of the District. Advances from the developer are reported as non-current liabilities on the statement of net assets. The activity in the developer liability for the year ended September 30, 2012 was:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
Due to developer	\$ 36,668	\$ -	\$ (36,668)	\$ -
Total	<u>\$ 36,668</u>	<u>\$ -</u>	<u>\$ (36,668)</u>	<u>\$ -</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. NONCURRENT LIABILITIES – CONTINUED**

**Due to Other Districts**

Effective May 20, 2009, the District entered into a reimbursement agreement between Castle Hills Development Corporation Bright Realty, Ltd., Bright Farm Partnership, Bright & Company, Inc., Castle Hills Property Company (collectively Bright Entities), Denton No. 1-A, Denton No. 1-C, Denton No. 1-D, Denton No. 1-E, Denton No. 1-F, the District and Denton No. 1-H (collectively the Districts).

For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by District No. 1-A will be considered as a full complete release of that particular District's obligation pursuant to existing developer reimbursement agreements. Such amounts due to District No. 1-A under this agreement are reported as noncurrent liabilities on the statement of net assets.

In prior years, the District entered into an Excess Capacity Purchase Agreement with District No. 1-F. In accordance with this Agreement, the District agreed to purchase excess drainage capacity and sewer capacity from District No. 1-F. In addition, the District will purchase one-hundred (100) percent of the capacity in the two master water meters installed pursuant to the Wholesale Water Supply Agreement, see Note 8, with the City of Lewisville. The amount owed to District No. 1-F under the Excess Capacity Purchase Agreement is recorded as a noncurrent liability on the statement of net assets.

Activity in the due to other districts liability for the year ended September 30, 2012 was:

	Beginning Balance	Additions	Repayments	Ending Balance
Due to 1-A	\$ 233,149	\$ -	\$ -	\$ 233,149
Due to 1-F	124,245	-	-	124,245
	<u>\$ 357,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,394</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. MAINTENANCE TAX**

On November 7, 2006, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2012, the District levied a maintenance tax at the rate of \$1.0000 of assessed valuation, which resulted in a tax levy of \$640,050 on an adjusted valuation of \$64,005,035. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

**NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS**

In fiscal year 2011, District 1-A recognized the need to develop a reserve to be used for one-time expenditures which are necessary to operate and maintain the facilities of the District. District 1-A accounts for the Districts' deposits in a separate reserve account and will only utilize the funds in accordance with the District 1-A Reserve Expense Policy, and in accordance with the allocation percentages authorized in the operating agreement with the District and adopted in the budgeting process on an annual basis. For the year ended September 30, 2012, the District paid \$30,000 into the reserves.

**NOTE 8. WATER SUPPLY AGREEMENTS**

**Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member**

On May 7, 1992 Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District (UTRWD) to provide treated water to participants in the UTRWD. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

The governing body of each contract member, each participating member and Denton County are entitled to appoint a qualified person to serve on the Board. The governing body of each customer can appoint one member of the governing body or an employee as a member of the Customer Advisory Council (Council) of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of the UTRWD.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. WATER SUPPLY AGREEMENTS – CONTINUED**

**Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member – Continued**

The supply of water on a minimum demand, on an interim basis, is for half a million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its part of the annual requirement in monthly installments.

The agreement provides for water conservation and drought contingency issues. The term of the contract is thirty (30) years or as long as the bonds issued remain outstanding. The Contract has a twenty (20) year extension provision.

**Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1.**

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement and the District has ratified the actions of District No. 1-A.

District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and the UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for District No. 1-A is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, District No. 1-A will report to UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. WATER SUPPLY AGREEMENTS – CONTINUED**

**Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1. – Continued**

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

**Wholesale Water Supply Agreement with the City of Lewisville**

On January 28, 2008, District No. 1-A entered into a wholesale water supply agreement with the City of Lewisville (City). The City agrees to provide wholesale water supply to District No. 1-A for the City Wholesale Service Area. Within the City Wholesale Service Area, District No. 1-A agrees not to use potable water, including ground water, from any source or facilities other than from the City system without the prior written consent of the City Council of the City. District No. 1-A agrees, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to Castle Hills Subdivision's system.

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day.

The initial volume rate is \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly. The term of this agreement ends the earlier of August 18, 2032, or such date specified for District 1-A's annexation by the City.

**NOTE 9. OPERATING AGREEMENT**

Effective April 1, 2008, the District entered into an Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which now includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. OPERATING AGREEMENT – CONTINUED**

District No. 1-A is responsible for preparing and submitting to the District a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of expenses based on customer usage, if the total actual costs do not exceed the FOMB by more than 12%, the District's revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the District. District No. 1-A shall be authorized to make expenditures not approved in the FOMB if, 1) Immediately required by law or, 2) Not in excess of \$5,000, with notification efforts being made to the applicable District.

District No. 1-A agreed to handle all aspects of operating the District including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. District No. 1-A will employ personnel as required.

The District agreed to institute a rate order containing water, sewer, solid waste collection, building permits and inspection fees. District No. 1-A agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The District agreed to fund a pro-rata portion of overhead cost incurred by District No. 1-A from proceeds of the water, sewer and solid waste collection revenues.

In accordance with the agreement, costs of the maintenance of the facilities within districts of the Castle Hill Subdivision shall be allocated to each district based on the basis of projected water connections. Projected water connections are defined as those new connections that are projected to occur during the next succeeding fiscal year for all the districts. Each district's cost will be calculated based upon a fraction, the numerator of which shall be the total number of actual and projected water connections within each district divided by the total number of actual and projected water connections within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

On September 17, 2008, the District approved the Amended and Restated Operating Agreement. This agreement was effective on October 1, 2008. All other provisions remained the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that is existing on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. OPERATING AGREEMENT – CONTINUED**

Each district's cost will be calculated based upon a fraction that is calculated by dividing the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40<sup>th</sup>) anniversary of October 1, 2008.

**NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT**

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H, approved a Strategic Partnership Agreement (SPA) with the City of Lewisville. The Agreement allowed the City of Lewisville to annex certain properties for the limited purpose of imposing a sales and use tax on certain properties within each District. The sales and use tax collected will be used first to cover the cost of the City of Lewisville providing public safety services to the Districts. If, after all public safety costs are covered, there are surplus funds, then those funds are split 50%/50% between the City of Lewisville and District 1-A.

Upon receipt of surplus funds, District 1-A will allocate those funds to the District(s) that generated the sales and use tax. The Agreement specifies that a District that receives funds from the SPA must first use those funds to repay any outstanding Developer Debt. If no outstanding Developer debt exists, the funds can be used for any lawful purpose. The Agreement will expire June, 2019 unless the City of Lewisville either 1) renews the agreement, or 2) fully annexes the District.

The District only recognizes revenue for the allocated surplus as strategic partnership revenue. The District's share of public safety cost that was offset directly from sales tax collected from the City of Lewisville was \$27,560.

**NOTE 11. ECONOMIC DEPENDENCY**

The District has contracted with Denton County Fresh Water Supply District No. 1-A to conduct District operations. The District is further obligated for significant water supply commitments. The ability to meet all these obligations may require the Developer to advance monies to the District from time to time to meet all the financial obligations and to cover any operating deficits of the District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 13. BOND ELECTION**

On November 4, 2008, voters within the District approved for the District to issue bonds in the maximum amount of \$30,000,000 for utilities and \$10,400,000 for roads. In addition, refunding bonds were approved in the amount of \$37,500,000 and road refunding bonds were approved in the amount of \$13,000,000. As of September 30, 2012, the District has not issued any bonds.

**NOTE 14. LITIGATION**

The District is party to legal actions arising in the ordinary course of business. In the opinion of the District's management, the District has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the District's operations or financial position.

**NOTE 15. SUBSEQUENT EVENTS**

The District has evaluated all events or transactions that occurred after September 30, 2012 up through October 16, 2013 the date the financial statements were available to be issued. During this period there were no subsequent events requiring disclosure.

## **OTHER SUPPLEMENTARY INFORMATION**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
SCHEDULE OF REIMBURSED COSTS TO OTHER  
GOVERNMENTAL UNITS – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<b>District No. 1-G</b>
<b>Reimbursed costs to (from) other governmental units:</b>	
Personnel	\$ 50,999
Contracted labor	2,910
Insurance	7,874
Office supplies	2,228
Office rental	6,739
Utilities	40,623
Landscape maintenance	32,740
Public safety	27,596
Public safety revenue allocations	(27,596)
Purchased water services	105,050
Non-potable	23,424
Dues and subscriptions	989
Communication	1,966
Training	620
Bond payment funding	12,971
Equipment rental	3,935
Supplies	2,772
Maintenance	28,993
Other	4,550
<b>Total allocated costs to (from) other governmental units</b>	<b>\$329,383</b>

**SUPPLEMENTARY INFORMATION - REQUIRED BY  
THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget Original</u>	<u>Budget Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>				
Property taxes	\$ 621,043	\$ 621,043	\$ 640,782	\$ 19,739
Permits and inspections	1,400	228,744	312,574	83,830
Miscellaneous revenues	-	-	7,671	7,671
<b>TOTAL REVENUES</b>	<u>622,443</u>	<u>849,787</u>	<u>961,817</u>	<u>112,030</u>
<b>EXPENDITURES</b>				
Service operations:				
Director expenditures	5,345	5,345	3,825	1,520
Administrative expenditures	46,585	46,585	97,905	(51,320)
Allocated costs to District 1-A	344,215	344,215	329,383	14,832
Contracted services	18,558	18,558	29,514	(10,956)
Purchased water service	645	645	96	549
Purchased wastewater service	693	693	610	83
Capital outlay	-	222,435	16,284	206,151
<b>TOTAL EXPENDITURES</b>	<u>416,041</u>	<u>638,476</u>	<u>477,617</u>	<u>160,859</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>206,402</u>	<u>211,311</u>	<u>484,200</u>	<u>272,889</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Payments to developer	-	-	(36,668)	(36,668)
Contributions to other governmental units	(30,000)	(30,000)	(252,435)	(222,435)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(30,000)</u>	<u>(30,000)</u>	<u>(289,103)</u>	<u>(259,103)</u>
<b>NET CHANGE IN FUND BALANCES</b>	176,402	181,311	195,097	13,786
<b>FUND BALANCES - OCTOBER 1, 2011</b>	<u>-</u>	<u>-</u>	<u>10,257</u>	<u>10,257</u>
<b>FUND BALANCES - SEPTEMBER 30, 2012</b>	<u>\$ 176,402</u>	<u>\$ 181,311</u>	<u>\$ 205,354</u>	<u>\$ 24,043</u>



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

Services provided by the district during the fiscal year:

<u>  X  </u>	Retail Water	<u>      </u>	Wholesale Water	<u>  X  </u>	Drainage
<u>  X  </u>	Retail Wastewater	<u>      </u>	Wholesale Wastewater	<u>      </u>	Irrigation
<u>  X  </u>	Parks/Recreation	<u>  X  </u>	Fire Protection	<u>      </u>	Security
<u>  X  </u>	Solid Waste/Garbage	<u>  X  </u>	Flood Control	<u>  X  </u>	Roads
	Participates in joint venture, regional system and/or wastewater service				
<u>  X  </u>	(other than emergency interconnect)				
<u>      </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 1" METER (OR EQUIVALENT):

Based on the rate order approved September 27, 2011

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	34.75	2,000	N	3.74	2,001 to 15,000
				4.24	15,001 to 25,000
				5.06	25,001 to 35,000
				6.06	35,001 to 45,000
				7.06	45,001 to 55,000
				8.06	55,001 and up
Wastewater:					
Residential	16.82		N	5.38	All
Residential	62.97		Y		New Customers
Commercial	16.82		N	5.38	All
Surcharge:					
Solid waste/ garbage	15.43		Y		
Commission	.5% of actual				
Regulatory	water and				
Assessments	sewer bill				

District employs winter averaging for wastewater usage?     X   Yes          No

Total monthly charges per 10,000 gallons usage: Water: 64.67 Wastewater: \$54.35  
Solid waste: \$16.59

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered	-	-	X 1.0	-
≤ 3/4"	-	-	X 1.0	-
1"	-	-	X 2.5	-
1 1/2"	-	-	X 5.0	-
2"	-	-	X 8.0	-
3"	-	-	X 15.0	-
4"	-	-	X 25.0	-
6"	-	-	X 50.0	-
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	-	-		-
Total wastewater connections	-	-	X 1.0	-

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	-	<u>N/A</u>
Gallons purchased:	-	From our water suppliers

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012  
(UNAUDITED)**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes  No

Does the District have Operation and Maintenance standby fees? Yes  No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county? Yes  No

County or Counties in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely  Partly  Not at all

ETJ's in which District is located:

City of Lewisville, Texas.

Are Board Members appointed by an office outside the District? Yes  No

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

<b>Director expenditures</b>	
Personnel expenditures	\$ 44
Directors costs	595
Director fees	3,000
Payroll taxes and administration	<u>186</u>
<b>Total director expenditures</b>	<u>3,825</u>
 <b>Administrative expenditures</b>	
Auditing	8,483
Engineering	37,748
Legal	39,595
Tax collector	21
Insurance	6,703
Election costs	75
Appraisal district	<u>5,280</u>
<b>Total administrative services</b>	<u>97,905</u>
 <b>Allocated costs to District 1-A</b>	
	<u>329,383</u>
 <b>Contracted services:</b>	
Capital outlay	16,284
Management fee	<u>29,514</u>
<b>Total contracted services</b>	<u>45,798</u>
 <b>Purchased services:</b>	
Purchased water service	96
Purchased wastewater service	<u>610</u>
<b>Total contracted services</b>	<u>706</u>
 <b>Total expenditures</b>	 <u><u>\$ 477,617</u></u>

Number of persons employed by the District    -0-    Full-Time    -0-    Part-Time

(Note: The District is allocated a portion of personnel cost from Denton County Fresh Water Supply District No. 1-A in accordance with an Operating Agreement.)

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
ANALYSIS OF TAXES RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<b>Maintenance Tax</b>	
Taxes receivable -		
October 1, 2011	\$ -	
Adjustments to beginning balance	-	-
Original 2011 tax levy	640,250	
Adjustment to 2011 tax levy	484	640,734
Total to be accounted for		640,734
Tax collections:		
Prior years	-	
Current year	640,734	640,734
Taxes receivable -		
September 30, 2012		\$ -

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
ANALYSIS OF TAXES LEVIED  
FOR THE YEAR LAST THREE TAX YEARS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>PROPERTY VALUATIONS</b>			
Land	\$ 64,007,551	\$ 64,007,551	\$ 71,564,471
Improvements	204	202	202
Personal property	68,381	-	90
Exemptions	<u>(2,758)</u>	<u>(2,718)</u>	<u>(2,718)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u>\$ 64,073,378</u>	<u>\$ 64,005,035</u>	<u>\$ 71,562,045</u>
<b>TAX RATES PER \$100 VALUATION</b>			
Contract	\$ -	\$ -	\$ -
Maintenance	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
<b>ADJUSTED TAX LEVY*</b>	<u>\$ 640,734</u>	<u>\$ 640,050</u>	<u>\$ 708,127</u>
<b>PERCENT OF TAXES COLLECTED TO TAXES LEVIED</b>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

\* Based upon adjusted tax at time of audit for the period in which the tax was levied.

Maintenance Tax — Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on August 10, 1996.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND – THREE YEARS**

	Amounts		
	2012	2011	2010
<b>REVENUES:</b>			
Property taxes	\$ 640,782	\$ 640,050	\$ 708,127
Water service	615	-	-
Penalty and interest	175	-	-
Permits and inspections	312,574	1,950	5,352
Sales tax revenues	-	-	14,401
Miscellaneous revenues	7,671	809	532
<b>TOTAL REVENUES</b>	<b>961,817</b>	<b>642,809</b>	<b>728,412</b>
<b>EXPENDITURES</b>			
Service operations:			
Personnel	58,873	-	101,532
Director expenditures	3,825	4,017	4,703
Administrative expenditures	97,905	40,990	44,159
Contracted services	65,164	264,677	87,213
Purchased water service	105,146	-	81,901
Purchased wastewater service	610	-	44,296
Purchased non-potable water service	23,424	-	20,444
Utilities	42,589	-	37,881
Repairs and maintenance	28,993	-	26,891
Supplies and other charges	34,804	-	37,842
Capital outlay	16,284	-	-
<b>TOTAL EXPENDITURES</b>	<b>477,617</b>	<b>309,684</b>	<b>486,862</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>484,200</b>	<b>333,125</b>	<b>241,550</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer out	-	(11,220)	(208,600)
Contributions to other governmental units	(252,435)	(180,000)	(91,000)
Payment to developer	(36,668)	(250,000)	-
Developer contribution	-	250,000	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(289,103)</b>	<b>(191,220)</b>	<b>(299,600)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>195,097</b>	<b>141,905</b>	<b>(58,050)</b>
<b>BEGINNING FUND BALANCE</b>	<b>10,257</b>	<b>(131,648)</b>	<b>(73,598)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 205,354</b>	<b>\$ 10,257</b>	<b>\$ (131,648)</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Percent of Total Revenues**

<u>2012</u>	<u>2011</u>	<u>2010</u>
66.6 %	99.7 %	97.3 %
0.1	0.0	0.0
0.0	0.0	0.0
32.5	0.3	0.7
0.0	0.0	2.0
<u>0.8</u>	<u>0.1</u>	<u>0.1</u>
<u>100.0</u>	<u>100.1</u>	<u>100.1</u>
6.1	0.0	13.9
0.4	0.6	0.6
10.2	6.4	6.1
6.8	41.2	12.0
10.9	0.0	11.2
0.1	0.0	6.1
2.4	0.0	2.8
4.4	0.0	5.2
3.0	0.0	3.7
3.6	0.0	5.2
<u>1.7</u>	<u>0.0</u>	<u>0.0</u>
<u>49.6</u>	<u>48.2</u>	<u>66.8 %</u>
<u><u>50.4 %</u></u>	<u><u>51.9 %</u></u>	<u><u>33.3 %</u></u>

Note District No. 1-A changed its method for allocating expenses to the District. Allocated costs have been combined with related line item for comparison purposes.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2012  
(UNAUDITED)**

District Mailing Address - Denton County Fresh Water Supply District No. 1-G  
2540 King Arthur, Suite 220  
Lewisville, TX 75056

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected)</u>	<u>Fees of Office for the Year Ended September 30, 2012</u>	<u>Expense Reimbursements for the Year Ended September 30, 2012</u>	<u>Title</u>
Mark Crouch	5/14	\$ 750	\$ 26	President
Michael Raquet	5/14	\$ 750	-	Vice President
Melissa Brand-Vokey	5/16	\$ 900	-	Secretary
Carol Upchurch	5/14	\$ 300	-	Assistant Secretary
Marcus O'Con	5/16	\$ 300	-	Assistant Secretary

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): March 28, 2013.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. On May 18, 2005, the District formally adopted a Resolution setting the limits for its Directors at \$3,500. Fees of office are the amounts actually paid to a Director during the District's current fiscal year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2012  
(UNAUDITED)**

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2012</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/2008	\$ 50,775	Attorney
Hurt & Berry, LLP 10670 North Central Expwy, Suite 450 Dallas, TX 75231	5/3/2010	\$ -	Attorney
IDS / Pate Engineers, Inc. 1333 Northwest Fwy, Suite 300 Houston, TX 77040	11/16/2009	\$ 42,062	Project Engineer
Liz Standerfer 2540 King Arthur, Suite 220 Lewisville, TX 75056	3/30/2009	\$ -	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ 6,600.50	Property Tax Appraisals
Denton County Tax Collector 2540 King Arthur, Suite 220 Lewisville, TX 75056	Legislative Action	\$ 22.01	Investment Officer
Winstead PC 5400 Renaissance Tower/1201 Elm St Dallas, TX 75270-2199	7/19/2011	\$ -	Attorney